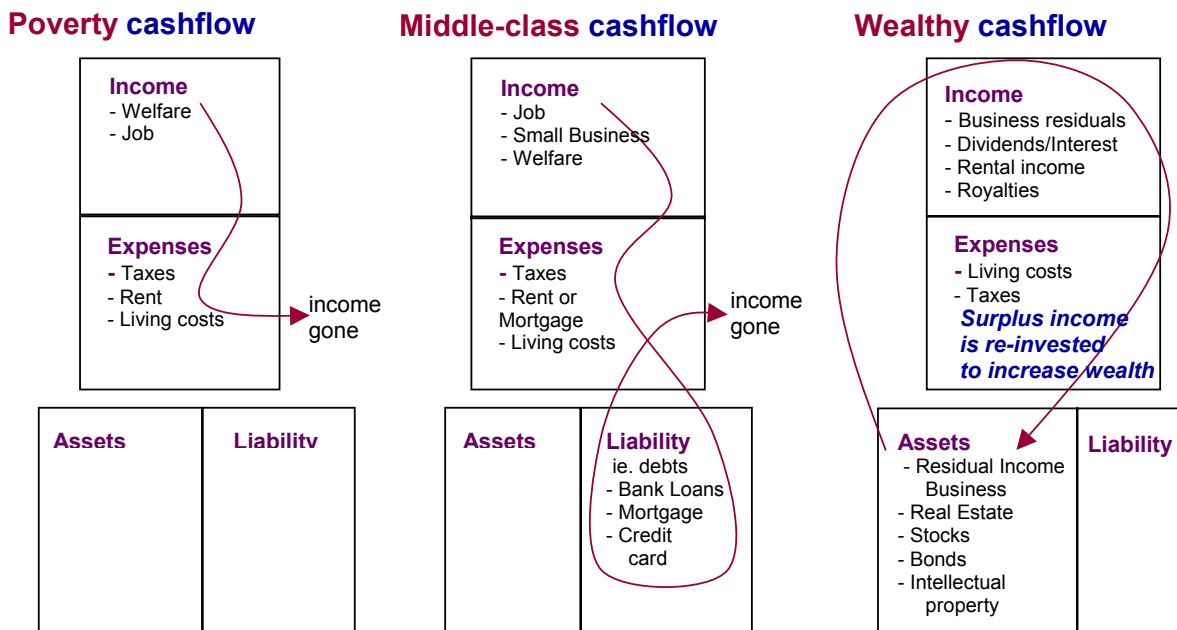


The Wealth Formula

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In books like *Rich Dad Poor Dad* and *The Cashflow Quadrant*, best-selling author Robert Kiyosaki explains how people create their financial circumstances through the following cashflow formulas.¹

- **The Formula for Poverty:** receive linear income money (from welfare and jobs) and spend it all on expenses.
- **The Formula for being Middle-Class:** receive linear income money (from jobs, welfare and traditional small business). Then spend it on expenses and on items that you can't truly afford. This means you borrow money to pay the balance and thereby go into debt. These debt-creating items are termed "liabilities". They create a drain on your income. Such liabilities include getting a bigger mortgage and borrowing money to travel or to buy a new car and other flash toys that you can't pay for in cash.
- **The Formula for Wealth:** invest your income in *assets*. Through assets your money works to create more income for you long-term. Assets include businesses that produce residual income, stock market shares and rental income from real estate. You achieve the state of financial freedom when the income from your assets covers your expenses. To become wealthy avoid liabilities; avoid the bad debt that drains your income.



Now let's consider the differences between:

Linear Income	Passive Residual Income
<p>Linear Income: To create linear income you work for an hour to get paid for an hour. There is a direct line, a one-to-one linear relationship, between your time and your income.</p>	<p>Residual Income: To create passive residual income you invest in an asset that can eventually create income for you on autopilot. You invest time, money and energy in the short-term to gain greater financial rewards over the long-term.</p>

1 - These diagrams are adapted from: Robert Kiyosaki & Sharon Lechter, *Rich Dad Poor Dad – What the Rich teach their kids about money that the poor and middle class do not*, 1997, pages 54-58,69, 157 Cashflow Education Australia.

<p>Linear Income: If you don't work the hours you don't receive income. And your earning potential is limited by the number of hours you can work. Regardless of whether you're a street-sweeper or a doctor, your income potential is limited.</p>	<p>Residual Income: Once you've properly established a system you can stop working and still receive income from it long-term; even when you're asleep, on holiday or retired. Your income potential is unlimited. You can invest more time and money into the system to increase the results.</p>
<p>Linear Income: Working for linear income is like hiking from your house to a distant river to then haul buckets of water back to your house – day after day, decade after decade. If you don't haul the buckets, you don't have any water. This is like going to your job or small business each day, decade after decade, in order to haul home buckets of income.</p>	<p>Residual Income: With passive residual income you can save yourself from a lifetime of hauling buckets of water every day. Instead you work to build a pipeline from the river to your house. Once you have built this pipeline the water will come to you day after day, with very little effort on your part. Hence, you make yourself free from the daily chore of hauling buckets. You can then spend your time doing other things.</p>
<p>Linear Income: This entails short-term gain (buckets of water or a wage) at the price of long-term pain; being trapped in the cycle of having to haul buckets almost every day for decades.</p>	<p>Residual Income: Residual income entails a price of short-term pain (some extra work on the side for a period of time) to achieve the long-term gain – the pipeline of income that requires very little effort to maintain.</p>
<p>Linear Income: Examples of linear income include being an employee (working for someone else) and the kinds of small business where, if you stop working, the income stops coming in.</p>	<p>Residual Income: Examples of passive residual income include: rent from real estate, dividends from the share market, royalties from a best-selling book, and certain businesses like those on the internet where you refer customers to 3rd-party companies and earn regular referral commissions on the repeat orders of consumable products (delivered direct from company to consumer).</p>
<p>Linear Income: If your job or small business is your only significant source of income, and you lose it, how secure are you? How long could you maintain your standard of living? Relying on linear income alone is a recipe for financial insecurity.</p>	<p>Residual Income: The key to financial security is to set up several pipelines of passive residual income. If one of your income sources dries up then you still have several other pipelines of income.</p>

Either way, to obtain the rewards requires an investment of time, effort and money. For instance, it isn't even free to do a linear-income job. To do a job you might have to invest each month:

- Car travel costs of petrol & car-parking of, say, \$200 (AusD), or public transport of \$50-\$100.
- Childcare costs of around \$600 (AusD) per child.
- \$50-\$100 extra on food and drinks (at canteens and restaurants) than if you ate at home.
- \$50 on miscellaneous others like extra car maintenance, work clothing, tools and equipment.

Hence, it might cost you roughly \$50 to \$1000 or more per month just to be an employee.

Options for Creating Linear Income

According to the Australian Bureau of Statistics, by age 65 less than 4% of Australians are considered to be financially independent - that's classed as having savings of \$36,000+ to live off p.a.² Similarly, the US Bureau of Labor Statistics reveals that only 5% of Americans retire with adequate funds. In other words, the standard formula that most people use, of working 40 hours per week for 40 years, leaves them in a very bad financial position. It is only because of tax-payer-funded schemes, like the age

2 - Statistics sourced from the Australian Bureau of Statistics and printed in: Paul Clitheroe, *The Road to Wealth*, 2001, pages 8 - 11, Penguin Books, Victoria, Australia

pension, that these people get by.³ However, the population is aging. The number of tax-paying workers compared to elderly retirees is shrinking. It is expected that within a few decades governments won't be able to afford age pension schemes like they could in the past.⁴ On the other hand, around 90% people are not saving enough in retirement plans (like superannuation or 401k).⁵ Australian finance commentator Paul Clitheroe states "we have got a major crisis approaching."⁶ The U.S. Economic Policy Institute comments: "the average household has no chance of ever reaching adequate levels of retirement wealth if current trends continue."⁷

The next option to create income that people tend to consider is to open their own small business. This can be very risky if it involves bank loans of considerable sums. According to research from the Employment Strategies Council, "about 40% of small businesses operate on the brink of closure and only about 3% of small businesses will be hugely successful."⁸ According to Brian Sher, an Australian entrepreneur, around 80% of small businesses fail in the first five years and a total of 96% fail in the first nine years.⁹ Let's turn our attention now to ...

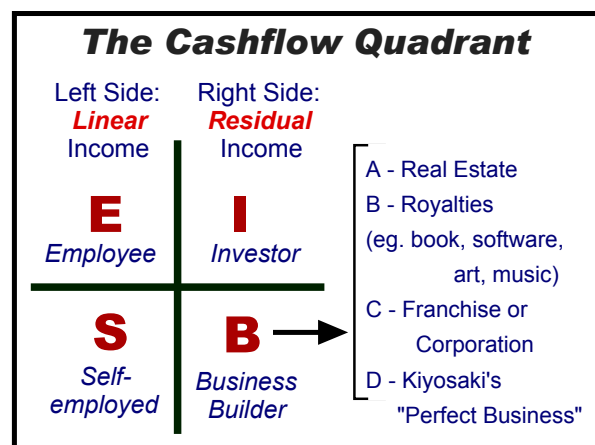
The Options for Creating Pipelines of Passive Residual Income

Robert Kiyosaki's "Cashflow Quadrant" identifies the different options for generating passive residual income. Let's briefly review these and see if there's one that is considered to be the best option for the average person to start with.

Investor (share market):

Knowing how to invest wisely, by making informed educated decisions *yourself*, is certainly a good arena to get into. However, it's expensive to get into and can take a very long time before significant results appear. For example, to earn \$500 per month in extra income (that's \$6,000 per annum) you would need to invest about \$100,000 at an average return of 6% p.a.¹⁰ If you want \$1,000 per month, then invest \$200,000. Do you have \$200,000 to invest?

Investing can be very high risk. We've all heard stories about people who have lost large sums of money because they gave it to financial experts to invest on their behalf. Consider that in the stock market crash of the early 2000s several million people lost \$7 to \$9 trillion dollars.¹¹ Indeed studies show that the advice of financial advisors is not all that reliable. One study, titled *How well do financial experts perform?*, found that: "financial experts are, on average, not so good at picking profitable stocks... An overwhelming majority of day-traders lose money."¹² As Robert Kiyosaki states, stockbrokers are salespeople who "say what the [financial] institution tells them to say and promote, or they lose their job."¹³ The advice is, if you want to increase the security of your stock market investments, educate yourself and look after your own affairs.



3 - S. Kelly, *Self Provision In Retirement? Forecasting Future Household Wealth*, 2003, [CP2003_016], National Centre for Social & Economic Modeling, NATSEM - University of Canberra, online at http://www.natsem.canberra.edu.au/pubs/cp03/2003_016/cp2003_016.html

4 - Paul Clitheroe, *The Road to Wealth*, 2001, page 394, Penguin Books, Victoria, Australia

5 - Robert Kiyosaki & Sharon Lechter, *Rich Dad Poor Dad - What the Rich teach their kids about money that the poor and middle class do not*, 1997, page 124, Cashflow Education Australia.

6 - Paul Clitheroe, in *The Sydney Morning Herald*, newspaper, 13 September 1997.

7 - Christian E. Weller, "Retirement out of reach: Financial markets will not generate adequate retirement income for average household", August 2002, *Economic Policy Institute Briefing Paper #129*, http://www.epinet.org/content.cfm/briefingpapers_bp129

8 - Paul Clitheroe, *The Road to Wealth*, 2001, page 443, Penguin Books, Victoria, Australia

9 - Brian Sher, *What Rich People Know & Desperately want to keep a Secret*, 1999, Pan Macmillan, Sydney.

10 - Paul Clitheroe, *The Road to Wealth*, 2001, page 94, Penguin Books, Victoria, Australia.

11 - Robert Kiyosaki & Sharon Lechter, *Who took my money? Why slow investors lose and fast money wins*, 2004, page 4, Richdad Australia.

12 - Patric Andersson, *How well do financial experts perform?* Stockholm School of Economics, Sweden. Consult my complete report *Secrets of the Wealthy - The Road to Prosperity* for the full reference.

13 - Robert Kiyosaki & Sharon Lechter, *Rich Dad's Prophecy - why the biggest stock market crash in history is still coming*, 2002, page 61-62, Techpress USA.

Real Estate:

This is also an ideal area to be active in if you know what you are doing. However, it involves a high level of risk, involving large amounts of capital. To receive \$500 per month in extra income from real estate you would need to invest \$200,000 in real estate property at a profit return of 3% per annum.¹⁴ Do you have \$200,000 to invest in real estate or even just a deposit of say \$20,000 to \$40,000 so you can get a bank loan for the rest? And what if you did start building your residual wealth in real estate and if the market turned against you? You could be in a big mess.

Royalties:

This is an option if you have the talent, the ideas, the skills, the capital and the long hours to produce and release a best-selling book, music album or piece of software. The odds of becoming successful this way are very small.

Franchise/Corporation:

Start-ups range from \$20,000 to over \$1,000,000. According to wealth-creation expert Robert Allen, around 1/3 of franchises eventually produce decent profits. Another 1/3 fail and another 1/3 break even, after many years. He states, "unless you're going to own a string of five or more successful stores - forget it."¹⁵ In other words, it's expensive to get into and involves a pretty high risk of failure and financial devastation.

There's one option left to consider. Robert Kiyosaki calls it:

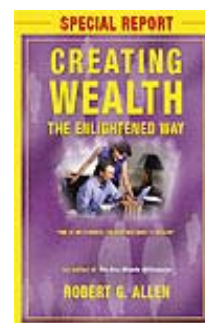
"The Perfect Business"

Why does he call it that? And why does he say that this income source can be "far more secure than the stock market"?¹⁶ Similarly, why does another best-selling author of books on wealth-creation, Robert Allen, call it "Creating Wealth - The Enlightened Way"?¹⁷ Likewise, why has a former Senior Vice President to the U.S. Chamber of Commerce and Presidential Senior Advisor, James Robinson, released a book describing it as "The Next Major Profession"?¹⁸



The answer to these questions is that, of all the options to create residual income, this method is the most affordable and the most accessible to the average person. For instance:

- It involves **low investments** and is therefore low risk. The other options discussed above involve investments of perhaps \$20,000 to \$1,000,000 or more... just to get started! In contrast, with this "perfect business" model, you can start building a pipeline of long-lasting residual income with a start-up investment of as little as, say, \$200 to \$1500 US; or \$300 to \$2000 Australian. That's less than what it can cost each month to go to a job.
- If you choose a good system, you can do all of the business **at home** (or wherever you choose) via email and phone.
- You are **your own boss**; you set your own hours; fitting it around your schedule.
- It can require **as little as 7 to 10 hours of work per week** over several years to build up an impressive pipeline of long-lasting residual income. You can do it in your spare time, on the side of a job.



14 - Paul Clitheroe, *The Road to Wealth*, 2001, page 94, Penguin Books, Victoria, Australia. Please note a 'real' return is the return in excess of inflation.

15 - Robert Allen, *Creating Wealth - the Enlightened Way*, 2002, page 24-25, Churchill Trust.

16 - Robert Kiyosaki, *Retire Young Retire Rich*, 2001, page 180, Techpress, USA.

17 - Robert Allen, *Creating Wealth - the Enlightened Way*, 2002, Churchill Trust.

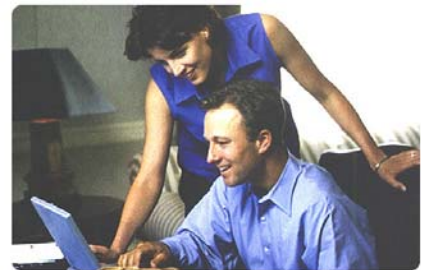
18 - James Robinson and Dr Charles King, *The New Professionals*, 2000, Three Rivers Press.

- **Unlimited income potential:** The more work you do, the more your income can rise in accordance. You increase your income through your actions and results.
- It has an **ethical and fair income system**. It is like a ladder. Everyone starts off at the bottom. Based on your efforts and results, you can climb past those who started before but who do less than you. Those who achieve the best results receive the most income.
- If you choose a good system and good mentors, you'll receive **full training and support**.
- If you choose a good system, you can achieve all this **without selling products** yourself, without meeting people in person and without staff.
- It also enables you to receive numerous **tax advantages**. You can claim deductions for household electricity, gas, phone and internet, home-office equipment, travel expenses (including motor vehicle, interstate, international), training and educational expenses, your mortgage interest, bank fees etc. A home business puts you in an optimum tax bracket.¹⁹



If through a home business you developed an extra pipeline of just \$6,000 p.a. (\$500 per month) in residual income that's like having \$100,000 invested in the share market (6% return pa) or \$200,000 in real estate (3% return pa). **Imagine you had \$30,000 pa of residual income coming in from a home business. In terms of asset-income that's like having \$500,000 in the stock market or \$1,000,000 in real estate.** With a good home business you achieve such asset-power for a mere fraction of the investments involved with shares or real estate.

So why isn't everyone doing this? The fact is, not everyone has the right mindset. Many people do not have the self-discipline required to do a home business. Whilst many people say they'd like to be their own boss, in reality not everyone can handle it. Being your own boss means setting your own goals and being committed to achieving them. You need to motivate yourself to put in the necessary time and effort to achieve your goals. In contrast, it seems some people need to have a boss to order them about. For otherwise, distractions or obstacles get the better of them. Hence, if you need a boss to order you about, a home business is probably not for you.



Another factor is that many of the people who get involved in the home business arena simply do not know what they're doing. Some delude themselves with illusions of vast amounts of fast money for little effort. They don't have the long-range wealth-mindset (the patience and commitment) that is required for building pipelines. Other people don't adequately research their options and rush into an ill-designed business model. Others don't obtain the necessary training and support to become successful - either because it's not available, or it is, but they don't make use of it.

So, would you like to avoid the mistakes those people make? Would you like to learn how to pick a good business model, a good opportunity that is secure for the long-term and which features a step-by-step system with extensive training and support?

For more information:

- See www.WealthFormulaMovie.com - 10 minute animation: includes concepts covered in this article.
- See www.WealthLeverageMovie.com - 25 minute animation: how leverage is a key to true wealth.
- See: www.HowToCompareMLM.com for the 26-page eBook *How to Compare MLM Network Marketing Businesses*.

Copyright Robert Ryan 2003-07, BSc, Dip IT, Dip Pa. In two and a half years I replaced the income from my I.T. job with a pipeline of residual income by working 7-10 hours per week at home.

¹⁹ - Refer to the Australian Tax Office publication *Carrying on your business from home*. Visit: www.ato.gov.au

Appendix: Reality check – how financially secure are You ... really?

**“Take responsibility for your finances or take orders all your life.
You’re either a master of money or a slave to it.”** Robert Kiyosaki²⁰

**Spending 5 minutes on this self-questionnaire could be one of the key points of your financial life.
If you have yet to do so, print this article now, grab a pen and have fun ...**

1/. What is your *Number One* priority from the following options? Please tick or circle one.

Financial Freedom	Extra income	Have my own business
Having more free time	Personal development	Helping others
Meeting new people	Better Health	Retirement

2/. Why did you choose that one?

3/. Why is that important to you?

4/. What are the consequences of not achieving it?

5/. Does that worry you? If so, why?

6/. Do you have only 1 source of income of more than a few hundred dollars a week?

Yes or No

7/. If you lost that (main) source of income tomorrow, how long could you maintain your current standard of living?

1 week 1 month 3 months 6 months 1 year other: _____

8/. How long would you be able to survive without becoming dependent on government welfare or on family and friends? 1 week 1 month 3 months 6 months 1 year

other: _____

9/. For how many years have you been working? _____

10/. Having worked that long, how much are you currently worth in assets? In other words, what amount of money do you have invested in residual income businesses, real estate properties, shares or superannuation retirement funds?

\$0 \$5000 \$10,000 \$100,000 \$ 200,000 \$500,000 \$1,000,000

Other: _____

Note: do not include the money locked in your own home because it is *not an asset* – it does not create income for you.

20 - Robert Kiyosaki, *Rich Dad Poor Dad – What the Rich teach their kids about money that the poor and middle class do not*, 1997, page 180

11/. To retire with an annual income of \$52,000, you will need \$866,666 in net asset value, returning at 6% per annum. In other words, that's $\$52,000 / 6\% = \$52,000 \times 100/6 = \$866,666$ required in net assets. Considering the financial path you are currently on, what do you think your net asset value will be at retirement age of 65?

\$0 \$5000 \$10,000 \$100,000 \$ 200,000 \$500,000 \$1,000,000

Other: _____

Again, to be honest with yourself do *not* include the value of your home – it does not create an income stream for you.

12/. To project your annual income for retirement, divide that asset figure by 16.666 (just as $\$866,666 / \$52,000 = 16.666$) What does that indicate your annual income will be? _____

(Hint: $\$100,000$ of assets / 16.666 = \$6000 p.a.)

13/. Is what you are currently doing financially going to give you the lifestyle you truly desire within, say, 5 years? Yes or No

14/. What would you *like* to be doing five years from now? Would you rather be:

working 40 or so hours per week in a job like your current one or doing other things instead like: _____

(write what you'd rather do with your time)... because you have created residual income streams (from assets) so that you don't *have* to work jobs anymore if you don't want to.

Disclaimer: The author of this report, Robert Ryan, is not a financial planner, adviser, registered accountant or financial professional. The information presented is based on his personal experiences as an employee, businessperson, researcher, entrepreneur, coach, investor, and others people that he has modelled in detail. You may have to modify, do further research or adapt it to suit your personal financial situation. Any information presented is given purely as an illustration and should not be construed as a specific investment recommendation. The laws relating to investment, taxation, benefits, and the handling of money are constantly changing and are often subject to changes in government policy. Whilst every care has been taken to ensure the accuracy of the material contained herein at the time of publication and presentation, neither the author nor the publishers will bear any responsibility or liability for any action taken by any person, persons or organisations on the purported basis of information contained in this report. Without limiting the generality of the foregoing, no person, persons or organisations should invest monies or take other action on reliance on the material contained in this report or any support material, but instead should satisfy themselves independently (whether by expert advice or otherwise), of the appropriateness of any such action. If you spot any errors in this report, please inform the author so he can correct them.